

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON UMHLABUYALINGANA MUNICIPALITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the financial statements of the Umhlabuyalingana Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

**Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umhlabuyalingana Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

**Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Restatement of corresponding figures**

8. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during the year ended 30 June 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

**Irregular expenditure**

9. As disclosed in note 24 to the financial statements, the municipality incurred irregular expenditure of R32,97 million in the 2012/13 financial year as a result of proper supply chain management (SCM) processes not having been followed.

**Additional matter**

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

**Unaudited supplementary schedules**

11. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

**Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.
15. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's Framework for managing programme performance information.
16. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

**Additional matters**

18. I draw attention to the following matters below. These matters do not have an impact on the predetermined objectives audit findings reported above.

### **Achievement of planned targets**

19. Of the total number of 70 targets planned for the year, 30 of targets were not achieved during the year under review. This represents 43% of total planned targets that were not achieved during the year under review.
20. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process.

### **Material adjustments to the annual performance report**

21. Material audit adjustments in the annual performance report were identified during the audit, all of which were corrected by management.

### **Compliance with laws and regulations**

22. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

### **Expenditure management**

23. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
24. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

### **Procurement and contract management**

25. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
26. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
27. Contrary to requirements of SCM regulations 44 the municipality made awards to persons in the service of the state.
28. Contrary to requirements of SCM regulation 29(2) the bid adjudication committee did not consist of at least four senior managers of the municipality.

### **Annual financial statements**

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA, as they were subject to material adjustments as a result of the audit.

### **Internal control**

30. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

### **Leadership**

31. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance with laws and regulations.

### **Financial and performance management**

32. Systems and controls were not designed in a manner to prevent, detect and address risks with an impact on financial; performance and compliance reporting. In this regard, the accounting officer did not ensure that regular, accurate and complete financial and performance reports were prepared, which were supported and evidenced by reliable information. This resulted to the material corrections in financial statements.

*Auditor-general*

Pietermaritzburg

29 November 2013



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*